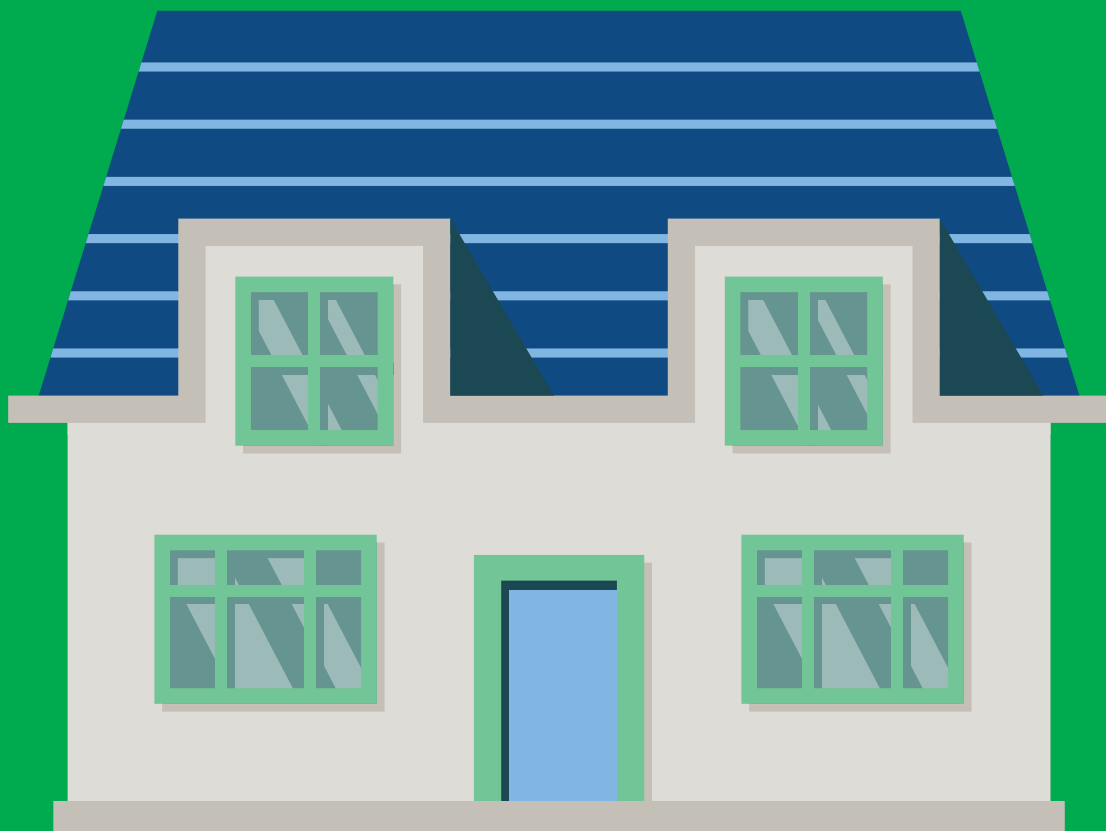




Ultimate Guide to  
Understanding a  
**Home Equity Line of  
Credit (HELOC)**



A Home Equity Line of Credit (HELOC) can be a desirable way to access cash for larger purchases, an emergency fund, or to consolidate debt. Discover everything there is to know about a HELOC to determine if one is right for you.



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# What is a HELOC?

A Home Equity Line of Credit (HELOC) is a line of credit taken on your home's equity. It essentially gives you a revolving credit line that you can use for a multitude of large expenses or to consolidate debt on other loans at a lower interest rate.



## How does a HELOC work?

A HELOC functions as a revolving credit line that uses your home's equity as collateral. There is a withdrawal period (typically 10 years) and a repayment period (typically 10 years).

During the withdrawal period, you can take money out for expenses and when you repay your balance, the money is replenished and can be used again, very similar to a credit card. You can borrow as little or as much of the available line of credit as you want.

## What about interest?

A HELOC can be interest-only during the draw period. Interest-only refers to the first several years of a HELOC loan where you can withdraw money and make interest-only payments. For example, if you have a 20-year loan, the first 10 years may be interest-only and you'd have 10 additional years to repay the money you took out (called the repayment period).

Because you are using your home's equity as collateral, the interest rates for a HELOC is often lower than credit cards and other types of loans. However, HELOCs often have an adjustable rate, which means that the rate you receive initially can rise and fall throughout the duration of the loan.



# How much can you borrow?

The amount you are able to borrow depends on the appraisal value of your home, how much you owe on your mortgage, and what percentage the lender will allow you to borrow against that value.

## HELOC Calculation:



Home's current value



Percentage of value  
the lender allows  
you to borrow



Max amount of equity  
that can be borrowed



Max amount of equity  
that can be borrowed



Remaining mortgage  
balance



Total amount you can  
borrow



For example, let's say your home is worth \$400,000 and you have \$300,000 left on your mortgage. If the lender allows you to access up to 80% of your home's value (\$320,000), you would subtract your remaining mortgage balance to get the total amount you can borrow with a HELOC - \$20,000.

How much can you borrow?  
Use our tool to find out.

[Use Calculator](#) →

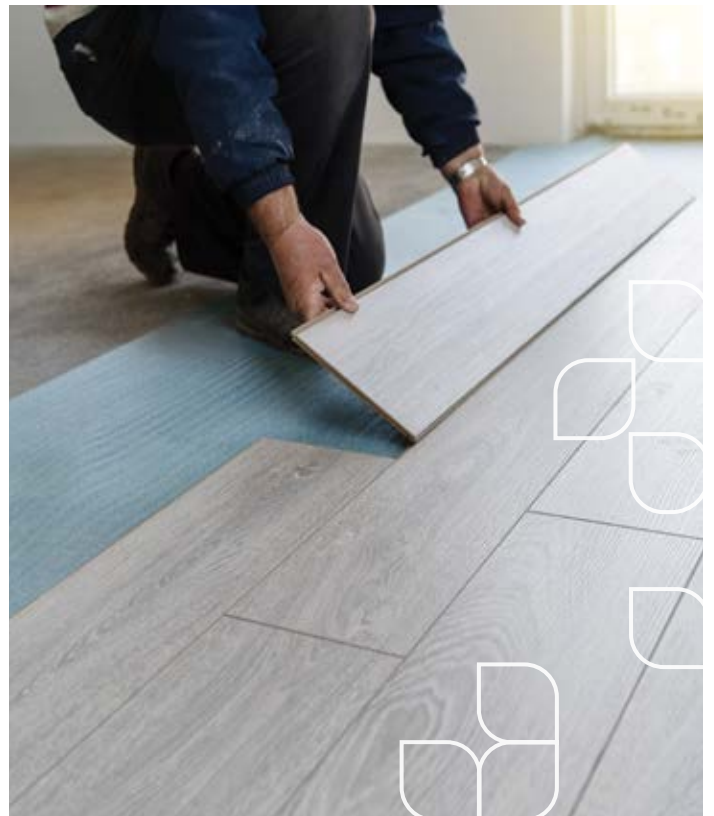




# Step 1: Determine if a HELOC is right for you

## Reasons why you would take out a HELOC

- You have debt you want to consolidate from other loans such as student loans or credit cards
- You need to make a large purchase and don't have the cash available to do so
- You are making large home improvements
- You'd like the comfort of knowing that you have cash available if you need it



Use our tool to determine if consolidating your debt is right for you.

[Use Our Tool](#) →



## Who is the ideal candidate?

A HELOC may be right for you if you:

- ✓ Have good credit and a history of on-time payments.
- ✓ Are a careful and organized planner when it comes to your finances.
- ✓ Are able to afford an additional payment each month.
- ✓ Plan to stay in your home long-term.

A HELOC can be one of the more inexpensive ways to gain access to cash.  
However, it isn't the right option for everyone.  
Read the following to determine if one is right for you.

## + Pros

- **Lower interest rates:** A HELOC tends to have lower interest rates when compared to personal loans, credit cards, and other types of loans.
- **Reach your goals:** The cash available to you from a HELOC can help you to complete home improvements, further your education, or pay off debts at a lower interest rate.
- **You only borrow what you need and only pay interest on what you use:** Like a revolving credit card, you only pay interest on the money that you have used, and once you pay it back, you can use it again.

## - Cons

- **Your home is used as collateral:** This means that if you are unable to make payments or default, your lender could foreclose on your property.
- **Longer terms:** HELOCs are often longer loans, so you could end up paying more interest in the long-run.





## Step 2: Set your budget and shop around for a lender



### Determine your monthly budget

Just because you are approved to borrow a certain amount with a HELOC, it doesn't mean that you should borrow that entire amount. It's crucial that you look at your overall financial situation to determine what you can afford.

For some HELOCs, borrowers can make interest-only payments for up to 10 years before the repayment period begins. During the repayment period, the payment includes both repayment of the loan principal plus the monthly interest on the outstanding balance.

You can use our payment calculator to determine what payments would be during both the withdrawal period and the repayment period.

[Use Our Calculator](#) →



Think about all of your monthly financial commitments, including your mortgage, to determine how much extra you can afford to pay each month.

Remember, a HELOC often has a variable rate. It's possible for your payments to exceed what you originally budgeted for and if you can't pay back what you have withdrawn, your lender could foreclose on your home. In order for a HELOC to be right for you, your budget needs to have the flexibility to accommodate these fluctuations.



Once you decide that a HELOC is right for you, it's time to determine your budget and select a lender with terms, rates, and a process that works for your unique situation.

## Finding a lender

When choosing a lender for a HELOC, you'll want to explore the different rates available to you. The rate is determined by your assets and liabilities, your credit score, and general economic factors.



### What is a variable interest rate?

Similar to credit cards, a HELOC oftentimes has a variable interest rate. The rate you receive initially can rise and fall during both your draw and repayment periods.



### Introductory rate

Some lenders will offer an introductory rate for a certain period of time, such as a year. During this time, your rate may be Prime minus a certain percentage.



For example, if the Prime rate, or current interest rate, is 6.5%, and you are offered Prime minus 1% for a year, you would pay 5.5% interest during that time period.

## Other considerations when looking at lenders

Besides looking at rates, ask these questions to determine which lender is best for you:

- ✓ Can you tell me about the process?
- ✓ How long will it take to close on my loan?
- ✓ Are there any annual fees?
- ✓ Is there an inactivity fee?
- ✓ Are there prepayment fees?
- ✓ Is there an interest rate cap?
- ✓ What is the minimum withdrawal per transaction?
- ✓ Will there be a balloon payment?
- ✓ How will I access my funds?



## Step 3: Apply for the HELOC

Once you've selected a lender, it's time to begin the application process.

### Application process

Applying for a HELOC is similar to applying for a mortgage. You provide the information needed, such as your personal information, your assets and liabilities, and your income information. Then, you will receive an estimate with information about the rate, the withdrawal period, and the repayment period. This can typically be done online, over the phone, or in person.

Keep in mind, you may need the following documents during the application process or the underwriting process:



#### To begin application:

- ✓ 2 years W-2's (most recent)
- ✓ 1 month pay stubs (most recent)
- ✓ If retired, most recent social security benefits statement/pension statement
- ✓ Copy of mortgage statement for all properties owned (primary, investment, rental, and vacation)
- ✓ Homeowners insurance declaration page (for all properties)
- ✓ Signed credit authorization
- ✓ Copy of driver's license

#### You will also need these if they are applicable to you:

- Statement for HOA dues
- Recorded divorce decree/separation agreement
- Full tax returns for the last 2 years if self-employed/own rental properties
- Full business tax returns for the last 2 years if you own more than 25% of a business

#### If you have rental, or investment properties, you will need:

- Property tax information for all properties
- Insurance information for all properties
- Mortgage statements for all properties



## Step 4: Get the appraisal

An appraisal is a crucial part of the HELOC application process as it allows the lender to firm up the information provided in your estimate.

### How does the appraisal work?

An appraisal is conducted by an independent professional whose job it is to give the lender an estimate of your home's current market value. This allows the lender to confirm the market value you provided is accurate and determine your loan to value ratio.

Some lenders utilize an Automated Valuation Model (AVM) appraisal, a software-based tool that determines property value, and also have someone drive by to take photos of the property. Speak with your lender to determine which appraisal /method they use.

**\$** There may be a fee associated with your appraisal. Be sure to ask your lender if you will be financially responsible for this fee.

### What does the appraisal mean?

The higher your home appraises for, the more money you can borrow.



For instance, in the example provided earlier, you would be able to borrow \$20,000 because your home is worth \$400,000 and you have \$300,000 left on your mortgage. However, if your home appraised for \$450,000, you would then be able to borrow \$60,000.





## Step 5: Go through the underwriting process

Once the lender has processed your application, everything will go to an underwriter who will evaluate and verify all of your documents and the information provided.

The underwriter makes the final decision whether or not your HELOC will be approved or denied. Keep in mind that the underwriter may ask you for additional information such as proof of income or debt, property ownership records, tax assessments, and more. The underwriting process can take anywhere from 10-14 days.



You should not open any new credit cards until the HELOC has closed.





## Step 6: Close on the HELOC



If all requirements are met and the underwriter approved your HELOC, you will be notified to schedule a closing appointment.

### **At the closing appointment you will:**

- Show your government ID
- Review the terms of the HELOC
- Learn how to withdrawal money and make payments
- Sign the loan documents confirming you understand and agree to the terms

3  
days

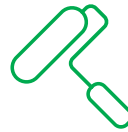
After closing, you have three business days to cancel the loan by law. This is called your “right of rescission.”



## Step 7: Access and use your funds

After your right of rescission period is over, funds will be disbursed. The way you access your funds will vary by lender but typically, you can access via online transfer, a bank card, or checks.

The money you withdraw from your HELOC is yours to use however you choose. Common ways people use the money include:



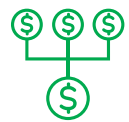
Home improvements



Paying for college



Paying medical bills



Consolidating high-interest debt



Down payment on a second home



Paying off student loans



An emergency fund



## Step 8: Loan maturity and repayment

Loan maturity isn't when the loan is paid off completely. It refers to when the repayment period begins and the outstanding balance becomes due.

After the withdrawal period, if you've made interest-only payments thus far, you will have a new payment amount that incorporates all principal, fees, and the interest on your outstanding balance.





# HELOC FAQ

## How long does the HELOC process take?

This can vary on a multitude of factors but typically, you can go through the process between 30-45 days.

## Can I pay off my HELOC early?

You can pay off your HELOC early with a lump sum or by paying extra as part of your monthly payments. Talk to your lender if there is a fee for paying off your HELOC early.

## How soon after I close can I access my money?

After closing, you have three business days to cancel the loan by law. This is called your “right of rescission.” After that period is complete, your funds will be disbursed, usually on the fourth business day.



## Do I need to get a HELOC from the company that services my mortgage?

No! It’s best to do your due diligence and choose the lender that is right for you.

## Do I receive the funds from a HELOC over time?

No, you receive a one time disbursement that can be used similar to how you would use a credit card.

## Are my payments tax deductible?

Interest payments could be tax deductible, however, the answer can vary based on a wide range of factors. It’s best to consult with a tax professional.

## Does a HELOC always have variable rates?

A HELOC generally has a variable-rate, meaning that the interest rate could rise or fall. However, some lenders provide a fixed-rate HELOC.

## What is the HELOC draw period?

This is the 10-year period of time where you can withdraw from your HELOC and pay interest-only on what you take out.

## What is the HELOC repayment period?

When the draw period ends, you enter the repayment period. This is typically a 10-year period of time where you pay down the principal and the interest. You will no longer be able to take money out.



## What's the difference between a HELOC and a home equity loan?

Home equity loans differ from a HELOC for a few reasons. First, home equity loans come in the form of a single disbursement vs. a HELOC, which is open-ended with a draw period. Home equity loans also have fixed interest rates that won't change while a HELOC generally has variable interest rates.

Compare a home equity loan to a HELOC:



[Read Article](#) →

## What's the difference between a HELOC and a refinance?

While a HELOC and refinance both make use of your home's equity, refinancing allows you to take on a larger mortgage, increasing your monthly payment but keeping the same term length.

How can you build equity in your home?



[Read Article](#) →

Is a refi worth it? Absolutely! As long as you are doing it for the right reasons.



[Read Article](#) →



## Are you ready to explore a Home Equity Line of Credit?

If you're renovating your home, need to make a large purchase, want to consolidate debt, or just want to have cash on hand for emergencies, take the first step by contacting us today!

Visit [bluegrassfederal.bank/HELOC](https://bluegrassfederal.bank/HELOC) to get started.

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